

# TECHNICAL ASSISTANCE COMPLETION REPORT

Division: CWRD - AFRM

<b>TA Number, Country, and Name</b> TA 4637-AFG : Capacity Building for Economic Management (co-financed by the Government of Australia)			<b>Amount Approved:</b> \$ 390,000		
			<b>Revised Amount:</b> \$ 390,000		
<b>Executing Agency:</b> Ministry of Finance		<b>Source of Funding:</b> \$ 200,000 – TASF \$ 190,000 – Australian TA Grant		<b>Amount Undisbursed:</b> \$ 126,403.41	<b>Amount Utilized:</b> \$ 263,596.59
<b>TA Approval Date:</b> 26 August 2005	<b>TA Signing Date:</b> 14 Sept. 2005	<b>Fielding of First Consultant(s):</b> November 2005	<b>TA Completion Date Original:</b> 31 December 2007	<b>Actual Completion Date:</b> 31 December 2007	
			<b>Account Closing Date Original:</b> 31 December 2007	<b>Actual Closing Date:</b> 23 December 2008	

**Description:**

The Government's National Development Strategy (Interim Afghanistan National Development Strategy, ultimately finalized as the Afghanistan National Development Strategy in March 2008) is equivalent to Afghanistan's Poverty Reduction Strategy Paper (PRSP). In order to strengthen the Government's ownership and involvement in the overall strategy process, it was necessary to develop the Government's capacity for (i) macro economic forecasting and analysis, and (ii) deepened sectoral analysis. Such enhanced capacity will enable the Government to better assess policy interventions and link its development policies with expenditure and investment priorities, fiscal policies, etc., thereby improving the effectiveness of public resource management and service delivery mechanisms. The overall purpose of the TA was to support the newly established Fiscal Policy Unit (FPU) in the Ministry of Finance (MoF) and to build the capacity of Unit staff to effectively analyze and monitor the Government's fiscal policies and to develop options and recommendations for consideration by the Ministry/Government. The TA complemented ADB's earlier capacity building support for the Ministry of Finance. The overall goal of the TA was to strengthen the macroeconomic management capacity of the Government of Afghanistan.

**Expected Impact, Outcome and Outputs:**

**Impacts:**

The TA's expected impact was a strengthening of the MOF's capacity for fiscal analysis. As noted above, such enhanced capacity was expected to enable the Government to better assess policy interventions and to link its development policies with expenditure and investment priorities, fiscal policies etc., thereby improving the effectiveness of public resource management and delivery mechanisms.

Through the TA the following was achieved:

- The newly established Fiscal Policy Unit (FPU) has been recognized as an integral and important component of the Ministry of Finance
- Through the TA, FPU staff (including domestic consultants hired through the TA) were provided with training and capacity building support
- FPU staff and national counterparts were trained and capacity was built. As a result, the FPU in October 2005 was able to prepare Afghanistan's first Medium Term Fiscal Framework (subsequently revised in 2006 to include the preliminary sector costing of the Interim Afghanistan National Development Strategy). As a measure of the FPU's sustainable capacity, the MTFF was further revised in early 2007 to set ceilings for Government budgetary units for FY 1386 (2007/2008). The FPU also was capacitated to take the lead in redrafting the Macroeconomic Framework chapter of the full (2008) Afghanistan National Development Strategy
- The FPU published the first ever Fiscal Bulletin for the first quarter of 1386 (2007/08), with regular reports subsequently prepared
- The FPU also successfully undertook the fiscal analysis of the Government's proposed Pay and Grading pay scale for civil servants and played a key role in the process of budget formulation, provincial budgeting, ANDS initial work for sector costing, mid year review of the budget, pension reform, Pay and Rank Reform for the Afghan National Army and Afghan National Police.
- The FPU staff are able to regularly conduct the general budget year and medium-term fiscal trend analyses, (ii) fiscal sustainability analyses of Government policies and reforms, and (iii) analyses of provincial budget allocations in

relation to social equity and efficiency concerns.

- Given their enhanced capacity, FPU staff have been tasked with reviewing and monitoring policy actions associated with benchmarks under IFI program lending modalities.
- The FPU also is the source of regular information flow on fiscal issues to the National Assembly and other relevant stakeholders

**Outcomes:**

The TA was expected to lead to the following outcomes:

- MOF will be able to (i) conduct analyses of (a) a general budget year and medium-term fiscal trends, (b) fiscal sustainability of government policies and reforms, and (c) provincial budget allocations in relation to social equity and efficiency concerns; and (d) review and monitor policy actions associated with benchmarks under program lending modalities.
- MOF will also have established a regular information flow with Parliament and relevant stakeholders on fiscal issues as well as an effective liaison with the ANDS process.

MOF will also have established a regular information flow with Parliament and relevant stakeholders on fiscal issues as well as an effective liaison with the ANDS process. The TA supported the MOF and led to achieving the above mentioned outcomes, and particularly the MOF's capacity to effectively analyze fiscal trends. As noted above, through the TA, the FPU was sufficiently capacitated to take the lead in fiscal analysis, including reviewing policy conditions for donor-financed loans and grants. The TA thus helped to strengthen the Government's macroeconomic management capacity.

**Outputs:**

Improved fiscal management capacity of the MOF.

As noted above (Impacts), the TA fully met planned outputs.

**Delivery of Inputs and Conduct of Activities:**

The TA provided for 43 person-months of consulting services (8 international and 35 domestic), with the total number of experts and the duration of their inputs to be determined through periodic progress assessments and according to the evolving needs of the Government. The engagement of consultants and procurement under the TA were carried out in accordance with the respective ADB guidelines. The TA ultimately financed 8 person-months of international and 30 person-months of domestic consulting services. The TA provided training for the four national consultants hired under the TA to serve as FPU staff, and also provided capacity building for some 10 national counterpart Ministry of Finance staff in areas of public finance management and fiscal issues. Because of overall weak national capacity, the international consultant provided on-the-job training to domestic consultant (FPU staff), with these consultants providing support and on-the-job mentoring advice to MOF's management as well as local national counterparts recruited for the FPU through Government's Priority Restructuring Reform (PRR) program.

**Evaluation of Outputs and Achievement of Outcome**

Consultant inputs generally were provided as planned, although the overall context of extremely weak Government capacity is emphasized. The establishment of FPU was a big achievement for the Government of Afghanistan to support the MOF in general fiscal analysis and budget prioritization. Through the TA, the FPU is now able to conduct analyses of (a) a general budget year and medium-term fiscal trends, (b) fiscal sustainability of government policies and reforms, and (c) provincial budget allocations in relation to social equity and efficiency concerns. The FPU also has sustainable capacity to review and monitor policy actions associated with benchmarks under International Financial Institution-supported program lending modalities. As per the planned outputs, the MOF also has established a regular information flow with Parliament and relevant stakeholders on fiscal issues and served as an effective liaison throughout the ANDS process. The FPU was institutionalized through the appointment of an FPU Head, with overall FPU staffing accomplished through the Government's Priority Restructuring Reform (PRR) program. The FPU has become an important part of MOF's overall organizational chart and the Government is committed to allocate necessary staff and financial resource for the FPU.

**Overall Assessment and Rating:** Successful

**Major Lessons:**

The design of capacity building TAs must provide for some flexibility, particularly in countries such as Afghanistan that have weak overall capacity and a rapidly changing policy environment. The TA supported the establishment of the FPU, including through the recruitment of domestic consultants to serve as core staff of the FPU.

**Recommendations and Follow-Up Actions:**

Despite the TA being judged as successful, it is noted that international TA consultants hired under TA projects should give more attention to transfer of knowledge/skills to Government staff and domestic consultants so as to ensure long terms sustainability. Elements of such capacity development/training should be explicitly elaborated in the TORs of international consultants.